



Banco de Portugal

EUROSISTEMA

World Bank Global Payments Week 2012

Welcome remarks by Governor Carlos da Silva Costa¹

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1. INTRODUCTORY REMARKS

Good morning Ladies and Gentlemen.

It is a pleasure and an honour to welcome you to Lisbon to the 2012 edition of the World Bank Global Payments Week.

Although largely invisible to the general public, payments and settlement systems are of vital importance in our day-to-day life. Payments systems facilitate transactions and support the efficient allocation of resources – they are the circulatory system of any modern economy. Virtually every economic transaction involves the use of a payment instrument, be it cash, cheque or electronic payment.

The quality, efficiency and safety of the payment system affect the intensity and geographical scope of exchanges. Innovation in payments systems has allowed the inclusion of new economic agents in international trade, by making it much easier and cheaper for small and medium corporations and individual consumers to engage in international transactions. The current degree of economic and financial globalization would simply not be attainable without sophisticated and reliable payments systems.

It is well understood that central banks have a strategic interest in payment systems. This strategic interest arises both from central banks' role in preserving financial stability and from their responsibility in the conduct of monetary policy. If not managed properly, payment systems have the potential to cause major disruptions to the financial system and the wider economy.

¹ As prepared for delivery.

Over the past decades the payments systems industry suffered a huge transformation in tandem with the increase in the volume of transactions and technological advances. Regulatory changes and enhanced cooperation have tried to accompany the pace of change.

Efforts towards building safe, reliable and efficient infrastructures for settlement and payments over the past decades have been rewarded. Indeed, payment systems have shown remarkable resilience in the current financial crisis. Market operators were able to settle their transactions on time even in the face of widespread counterparty concerns and acute strains such as the collapse of Bear Sterns and Lehman Brothers.

As highlighted by the IMF in its 2010 report on the “Central Banking Lessons from the Crisis”²:

“The crisis would have been much more severe had central banks not taken efforts to introduce robust payment and settlement systems...over the two decades ahead of the crisis.”

(Naturally the merit does not rest with central banks alone and should be shared with all stakeholders!).

While we should be happy that payment systems have operated smoothly in such strained conditions, this satisfaction must not distract us from the work to be done and the challenges we face in the current context of increasing global interdependency.

2. CHALLENGES

Let me briefly highlight three categories of challenges:

- Challenges pertaining to the financial institutions and service providers;
- Challenges faced by central banks and other authorities at the global level;
- And specific European challenges.

² IMF (2010), [“Central banking lessons from the crisis”](#), paragraph 54, pp. 30, May 2010.

2.1. Financial institutions and service providers

A major challenge for the **financial institutions and service providers** is the need to continuously adapt risk management practices to the more complex environment that results from increased interdependencies and innovation.

This concern has been high on the international agenda and was addressed in a report produced in 2008 by the BIS Committee on Payment and Settlement Systems (CPSS).³ The report calls for

- (i) Broad and comprehensive risk management perspectives;
- (ii) Risk management controls that are commensurate with the role played by each institution or service provider in the global payment and settlement infrastructure;
- (iii) And for a wide coordination among interdependent stakeholders.

2.2. Central banks and other authorities at the global level

I will now turn to challenges faced by central banks and other authorities at the global level. The critical issue here is the ability to continuously review existing regulations and standards and, where necessary, adapt them to the changing and increasingly complex environment.

Important steps are being taken to **strengthen oversight** at the global level. I refer in particular to the new CPSS-IOSCO **Principles for Financial Market Infrastructures** published last April – a topic that will occupy most of your day tomorrow.

Central banks worldwide are now making every effort to implement the new principles. Important issues to be dealt with in the implementation process include:

- The possible adoption of the principles through a legal act at the Eurosystem level for the systemically important payment systems;
- The revision of the oversight standards for retail payment systems;
- And the adoption of oversight expectations for links between retail payment systems.

³ Committee on Payment and Settlement Systems (2008), "[The interdependencies of payment and settlement systems](#)", BIS, June 2008.

In addition to the Principles for Financial Market Infrastructures, **regional laws and regulations** are also being developed and implemented. These include:

- The European Market Infrastructure Regulation, of 4 July 2012, on OTC derivatives, central counterparties and trade repositories;
- The future CSD Regulation in European Union;
- And the Dodd-Frank Act in the US.

It goes without saying that it is crucial to ensure that these rules are implemented in a globally consistent manner.

Many **other important topics** are currently on the global agenda, including

- The development of a stress testing methodology for payment systems;
- The provision of central bank liquidity to central counterparties; or
- The implications of innovations of retail payment instruments, both for the public's trust in the currency and for the transmission of monetary policy. I will return to topic of innovation in the context of the specific European challenges.

2.3. Specific European challenges

At the European level it is clear that payment systems are a key component of the banking union under construction, and a centerpiece for the maintenance of financial stability in the euro area. More generally, we have to look at payment systems as a major catalyst in promoting European integration and the realization of the Single Market potential.

I will highlight three major challenges in this context:

- First, the completion of the TARGET2-Securities project, which will provide us with a pan-European platform for securities settlement;
- Second, the creation of SEPA, the Single Euro Payments Area. The SEPA will make it possible for consumers and firms to make cashless payments in euro to anyone located in the area from a single account and using a harmonized set of payment instruments;
- And third, fostering innovation in retail payments while ensuring security.

(i) TARGET2-Securities

TARGET2-Securities will remove many of the existing barriers to cross-border clearing and settlement and act as a catalyst for further harmonization in post trading services. It will thus be a major step forward for creating a single market in securities.

The new platform will optimize the interaction of TARGET2 with the Central Securities Depositors and reduce the gap between the physical and financial settlement of securities by means of a real time Delivery-versus-Payment in central bank money.

Being largely a fixed-cost business, the success of TARGET2-Securities will very much depend on achieving a “critical mass” of users and operations. In this regard, the signing of the Framework Agreement in June this year by Central Securities Depositors representing 99% of euro area securities business volume is excellent news and suggests that the new platform will deliver.

(ii) SEPA – Single Euro Payments Area

The approval in March this year of the Regulation establishing the technical and business requirements for credit transfers and direct debits in euro⁴ represents a major breakthrough in the SEPA project. The Regulation sets February 2014 as the deadline for the migration to the new SEPA instruments.

(iii) Fostering innovation in retail payments while ensuring security

Against the backdrop of fast technological evolution and in response to the demands of consumers and businesses, European authorities have been devoting increased attention to internet and mobile payment solutions.

The costs of retail payments to society are not negligible. A recent ECB report – that will be presented to you this afternoon - estimates that the cost of retail payments in the European

⁴ [Regulation \(EU\) N° 260/2012](#) of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) N° 924/2009.

Union is close to 1% of GDP.⁵ E-payments are much speedier and cheaper than traditional paper-based payment instruments and therefore entail an important potential for cost savings.

However, e-payments are also subject to higher rates of fraud than traditional payment methods. Through its oversight function, the Eurosystem seeks to ensure the safety and efficiency of the overall market infrastructure for payments, inter alia by creating a minimum common threshold for security that will enhance consumer trust in e-payments.

In this context, the Eurosystem facilitated the creation of the European Forum on the Security of Retail Payments, or Secure Pay, a forum for cooperation that brings together overseers and supervisors of the European Union and European Economic Area. The Secure Pay developed a set of recommendations for the security of internet payments. These recommendations were subject to public consultation and will soon be published for subsequent adoption by the market.

3. CONCLUDING REMARKS

Let me conclude.

The evolving payment systems landscape brings both fresh opportunities and new challenges to all stakeholders.

The social costs of retail payments are significant and migration to efficient electronic retail payments has the potential to generate cost savings, thereby stimulating consumption, trade and overall economic growth.

However, to reap the benefits from new products and services, the associated challenges need to be adequately tackled. Like the financial markets and the economies they support, payment and settlement systems are increasingly interdependent. This means that the smooth functioning of individual systems depends on the smooth functioning of other related systems.

⁵ Schmiedel, Heiko, Gergana Kostova and Wiebe Ruttenberg (2012), "[The social and private costs of retail payment instruments – A European perspective](#)", ECB Occasional Paper No. 137, September 2012.

In order to ensure the safety of the global payment and settlement infrastructure, system operators, financial institutions and service providers need to have a clear and deep understanding of the risks involved and manage those risks effectively.

In turn, the authorities need to strike the right balance between efficiency and security. The regulatory process should evolve to support an orderly development of the new systems and processes.

The authorities also need to ensure that new products and services cover all segments of the population and that consumer protection and financial literacy are adequately addressed in the context of payment services provision. Indeed, access to payment services is also an entry point into the financial sector, reducing barriers that generate social exclusion. Moreover, improving financial literacy enables consumers to make informed choices, contributing to prevent the misuse of payment services and fraud.

One final but crucial point: it is clear that the evolution of payment systems generates important productivity gains. It is also clear that the efficiency of payments infrastructures depends on scale. But scale implies a small number of service providers and a very large number of users. Only if gains from scale are transferred to the final users, will the costs of economic transactions be reduced and the benefits from innovation reaped. On the other hand, we must also keep in mind that the infra-structure is not without cost.

So, a major challenge for regulators worldwide is to prevent the abuse of dominant position, ensuring that the price setting mechanism is such that the fees charged for the use of payment systems are a fair reflection of the transaction costs and of the need to remunerate invested capital.

During today and tomorrow you will surely have many lively and fruitful discussions on these and other important topics. So, I will not delay your debates any longer.

Thank you very much for your attention.